"Alembic Pharmaceuticals Q3 FY-21Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the Alembic Pharmaceuticals Q3 FY21 Earnings Conference Call. We have with us today from the Management Mr. Pranav Amin – Managing Director, Mr. Shaunak Amin – Managing Director, Mr. R. K. Baheti – Director Finance and CFO, Mr. Mitanshu Shah – Head Finance, Mr. Jesal Shah – Head Strategy and Mr. Ajay Kumar Desai – Senior Vice President, Finance.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. R. K. Baheti – Director Finance & CFO. Thank you and over to you sir.

R. K. Baheti: Thank you very much, good evening everyone. Thank you all for joining the third quarter results conference call. I'm sure you would have received the results by now. However let me briefly take you through the numbers for the quarter ended/nine months ended 31st December, 2020.

Let me begin with financials first.

During the quarter our revenue grew by 9% to Rs. 1,314 crores, EBITDA grew by 21% to 401 crores, which is 31% of sales. Profit Before Tax went up by 24% to 352 crores and profit after tax went up by 25% to 293 crores.

I'm happy to inform you that, Rhizen, our associate company after recouping all the work in progress CWIP, posted a profit for the first time and our share of profit of 26 crores is included in the above numbers.

EPS for the quarter is 14.88 per share v/s 12.42 in the corresponding quarter in the previous year. This year, of course you know the capital is enhanced. This is on enhanced capital.

During the nine months YTD December our total revenue grew by 21% to 4113 crores, EBITDA grew by 40% to 1,272 crores, which is 31% of the sales. Profit Before Tax went up by 52% to 1126 crores. Profit After Tax went up by 53% to 927 crores.

EPS for the nine-months on the expanded capital is Rs. 48 plus per share on weighted average basis versus Rs. 32 per share on the old capital in the corresponding nine months in the previous year.

Coming to the CAPEX, CAPEX for the quarter is 197 crores, cumulatively for nine months its 509 crores and cumulative CAPEX for the ongoing projects under CWIP yet to go for production is about 1,700 crores.

Aleor- our investment in Aleor is Rs. 60 crores for the quarter and nine months is 125 crores. Cumulative funding to Aleor is 800 crores.

As we have reported last quarter, net borrowing is pretty low now at around 300 crores, gross borrowing is 600 crores, net debt to equity is marginal at 0.08.

I will now hand over the discussion to Pranav for his presentation on International Business.

Pranav Amin: Thank you Mr. Baheti. We had another, decent quarter in the international business, largely driven by the API and ROW markets.

The R&D expense was 148 crores, approximately 11% of sales.

We filed 1 ANDA during the quarter.

We also received 8 approvals in the quarter, including 2 tentative.

We cumulatively have 137 ANDA approvals which includes 18 tentative approvals.

During the quarter we launched seven products, including Asenapine and Timolol which were interesting opportunities.

We plan to launch around 5 to 6 products in the fourth quarter as well.

The international formulations business grew by 3% to 683 crores for the quarter and 27% to 2,233 crores for nine months.

US generics degrew by 1% to 512 crores for the quarter and grew 21%, to Rs. 1689 crores for the nine months.

Ex USA generics continue to grow by 14% to 171 crores for the quarter and by almost 50% to 544 crores for the nine months.

API business also grew by 21% to 214 crores for the quarter and by 34% to 741 crores for the nine months.

I will now invite Shaunak to share some insights on the India Branded Business.

Shaunak Amin: Good afternoon everyone.

India branded business, on the back of some recovery in the market along with a better operational performance, did manage to show a 14% growth for the quarter and a 5% cumulative for

nine months of the financial year. Largely the growth in this quarter was driven by our focused specialty segments, which is 15% growth in Cardiology, 19% growth in Gynecology, 19% growth in Gastro and 30% in growth in Diabetology which is a continuation of the performance that we saw in Q2.

Also in Antibiotics on a flat market, we did manage to clock in a positive 3% on the antibiotic side and on the Cough and Cold side, the market still continues to underperform and we continue to underperform along with the market in Q3.

In terms of new launches, we had two important launches in Q3 which was Dapagliflozin as well as Rivaroxaban in the Cardiology space. Cardio-diabeto space which we feel going forward will give us a strong traction in sales. Within the portfolio, like I explained last quarter, the key focus brands which were the ones that were able to drive this growth and going forward we expect this momentum to continue.

On the acute side, especially Cough and Cold we are eagerly awaiting some normalization of the market which we expect with the vaccine rollout to happen in Q4. On the back of that we're extremely confident that the kind of performance we've been able to pick up in the Specialty side we will be able to demonstrate those in Cough and Cold as well as our Antibiotics portfolio, once market reaches to more normal levels in terms of overall growth numbers month on month.

I'd like to open the floor for Q&A please.

Moderator: Thank you very much sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of from Damayanti Kerai from HSBC.

Damayanti Kerai: My question is on India business part, just wanted to understand that better. In most of the focus therapies, you have achieved good growth, so can you bit more discuss there like what is helping us? New launches of course, one big driver, but what other factors are leading to this kind of a very strong growth for India market? That's my first question.

Shaunak Amin: On the India market the growth is largely, at the moment, driven majority by the old products in our portfolio, the new launches are too new and as you know in India it takes a couple of years in the cardio, diabeto and the speciality space for the brands to really pick-up large momentum. The new bands have contributed in a small way but largely it's the old brands. What has helped in driving this growth is the last 2 years of reorganizing a lot of our trade practices along with lot of refocus and reorganizing our portfolio. Unfortunately it was the pandemic didn't allow us to show that now things are returning to normal. We're starting to see the benefits of all the restructuring exercises we've done in the India portfolio, especially in the speciality side.

Damayanti Kerai: So still the growth is largely driven by pick-up in the older brand as you mentioned and the contribution from new launches will take some time to reflect in the numbers, right?

Shaunak Amin: To contribute in a large way to the growth, yes, it will take few quarters still.

Damayanti Kerai: Last quarter we had some benefits from Azithromycin demand pickup, so I assume that is still continuing for this quarter, right?

Shaunak Amin: This quarter the Azithromycin benefit has tapered down. If I give you an overall number versus a degrowth of the overall antibiotic market, we could show a +3% growth on our antibiotic portfolio.

Obviously, a large part of that has been contributed by Azithromycin growth but we definitely see a more easing up of growth on the Azithromycin side at the fag end of Q3 which we're seeing continuing into Q4.

Damayanti Kerai: My second question is on the cost part. So on India business, how much of cost is back to a pre pandemic level because other operating costs, I think despite pick up in operations, we saw sequential decline, right?

R. K. Baheti: As far as cost is concerned both, field activities now are almost at pre-COVID level. The customers meeting and meeting in the field is full swing, promo cost is back to normal. So we are back to normal almost.

Damayanti Kerai: So this difference between third quarter and second quarter, we should understand that large difference is coming due to lumpiness in the R&D expense.

R. K. Baheti: That's a consolidated number which factors a lot. In Q2 we had a larger R&D expense which is lower this time but R&D is dependent on a lot of moving factors. But India business expenses are more or less are now in line.

Moderator: The next question is from the line of Tushar from Motilal Oswal.

Tushar: Just on the US business side, I would like to understand given that there would be some delay in the inspection of the new facilities. So considering your earlier guidance of 450 crores expenses coming in FY22, will that get pushed? That is my first question.

Pranav Amin: As far as the expenses are concerned, one facility that we've done maximum filings from F3 that we've done about 5 to 7 filings

already. There are some products which are in shortage, we've been discussing with the FDA. I'm hopeful that they will be here within the next quarter or two. Let's see how it goes. I'm hopeful that during the next 6 months they should be here for an inspection. So the expenses will start once we commercialize sales from that front.

Tushar: On the filing side, given that these new facilities are filing base supposed to pick up. So when do we see that?

Pranav Amin: We've already started; F4 is oral solid, we're not doing any new filings per se from F4. We will move some site transfer products to the F4 for additional capacity. In terms of F2 which is oncology block we have already done some filings. The onco injectables we will do by the end of this year and the general injectable, we have already done 5 to 7 filings and that's when the FDA has given us a date which has got pushed back because of COVID.

Moderator: The next question is from the line of Charulata Gaidhani from Dalal & Broacha.

Charulata Gaidhani: My query is if you could throw some more insight into the India business because India business growth has come across as continuous as well as acute is growing; acute and chronic are doing well across the industry there is a 9% growth in acute and also in the animal health category. So can we consider this as a new quarterly base and how do you see this going forward?

R. K. Baheti: Yes. You are right Charulata, India business has done well and for last few quarters we have been explaining our strategy to revamp the India business, make it more sustainable, make it more profitable and some of these efforts seem to be paying off.

Going forward we remain quite confident of doing better than the market in most segments of our focus.

Charulata Gaidhani: The reason of this growth is it that you have widened the reach or have you take the increase in prices?

R. K. Baheti: It's both, actually it's a recovery in the market and our operational efficiencies both have combined to take us to this growth number. There are a lot of restrictions on price increases. We do wherever it is allowed by the law and the competition but that's not the important factor. Important factor is the operational efficiencies and some recovery of course in the overall market.

Charulata Gaidhani: My second question pertains to the US. US has come down to around 70 million in the quarter. So do you see this going down further or you think this is the bottom?

Pranav Amin: As you know our last eight quarters or so have been quite exceptional in the US business. Everyone knows, there were a lot of shortages in the market and a lot of disruptions which caused this fantastic growth for us. So, quarter on quarter it's tough to say. As I mentioned in the last couple of calls that the markets are stabilizing with the sartans. Moving forward I don't want to say a quarter-on-quarter, but I will still stick to our guidance where 2-3 years, we expect by FY24, to be closer to the 400 odd million in terms of US sales.

Moderator: The next question is from the line of Vishal Biraia from Aviva Insurance.

Vishal Biraia: Pranav, what would have caused a lower growth for the quarter in the US? Would it be pricing pressure on sartans or loss of market share or something that you can share?

Pranav Amin: Yes, sartans is a big part of it. So there is incremental competition in sartans. That is one of the reasons and we lost some accounts. We didn't want to bid at the prices that were there. So we let go of some accounts on the sartans. That is predominantly the reason. As I mentioned, last eight quarters there have been lot of disruptions in the market and there were lot of opportunities, very high priced opportunities which are very less now. But it's US market, you keep finding opportunities, so let's see how it goes.

Vishal Biraia: So incrementally as we see ahead in 4Q, so should it be similar to with what we saw in 4Q or should we see incremental deterioration, any perspectives for the coming 2-3 quarters?

Pranav Amin: It's a way to give a guidance but as I said, there's a lot of disruptions. If some disruptions happen then it could better. We've just recently launched some new products in December. It's really a matter of what we get. I expect it to be around similar, around about 70 million odd I've been guiding for.

Vishal Biraia: You were planning to launch some limited competition products in the US.

Pranav Amin: Yes, we launched three in December. One was Asenapine which was a day one launch. There were three other people in the market. The other one was a Timolol where the sole exclusivity that we've got on that, so both are interesting opportunities. Apart

from that we also launched Tavaborole which is a derm product, which is an interesting product as well as Latisse Bimatoprost.

Vishal Biraia: Overall if you see the pricing pressure in US like for the first half of this financial year, we saw that the pricing pressure has reduced to low single digit. Does that scenario continue overall for the US business?

Pranav Amin: As I mentioned in the last call that we're seeing a lot more people enter the market again. So there are two aspects of it. One is the disruptions that you see due to shortages that has become less. So this does not give you a scope for a higher price, one time buy what we saw over the last eight quarters. Whereas on the sartans it's relatively stable. So I'm not as worried about going forward that will be more stable, so it will be easier to predict in the next couple of quarters how it's going to move.

Vishal Biraia: If I got you, right, the overall scenario seems to be stable…?

Pranav Amin: Overall scenario, long-term what we expect over the next 2 years or so I'm pretty confident, I'm still very bullish on the US market. Our facilities are ready and we're awaiting the inspections, especially F3, the injectable one where we have already filed about 5-7 products. I'm still quite bullish on the US market.

Vishal Biraia: Just coming to the non-US market, the growth this quarter would have been driven s by Europe because of the serialization issues getting resolved or would have been largely the new entries like South Africa ramping up and Brazil?

Pranav Amin: So it's across the territories. The three main territories that we're part of is Europe, Canada, Australia. I think all three territories we

saw good focus on the supplies and those growth across the territories.

Vishal Biraia: Just one last question on the API side, the profitability on the API business continues to be as good as it was in 1H?

PranavAmin: The first half we saw a lot more opportunities in API. The profitability still remains to stay good for us. As I've mentioned many times that we have always been, more of a premium kind of a player and APIs and we only focus on the regulated markets per se. So pricing has been fine. Having said that after the first half of the year where there were a lot of disruptions from China that has become less and Chinese suppliers are back in the market.

Vishal Biraia: The pricing outlook for API, the pricing would have also reduced a bit because now the Chinese suppliers are back?

Pranav Amin: Not for us. We're not seeing that.

Vishal Biraia: So profitability for you would continue to be still relatively better?

Pranav Amin: So far, yes.

Moderator: The next question is from the line of Rashmi Sancheti from InCred Research.

Rashmi Sancheti: Just two things, on debt current gross borrowing stands at 600 crores, so what is the outlook on that? Will that be a major repayment in FY22 also or will it remain at the same level?

R. K. Baheti: The debt consists of largely the NCD which will fall due in next year '22-23 and will be paid in '22-23.

Rashmi Sancheti: How much would it come down?

R. K. Baheti: In next year it will come down by 100 crores.

Rashmi Sancheti: In FY22. And in FY23?

R. K. Baheti: It gets repaid fully.

Rashmi Sancheti: On R&D part in the earlier part of the year you said that R&D would be roughly around 700 crores. I think in the nine months we have done around 475 crore. So is it something that we stick to our guidance or we believe that it would be lower than 700 crores.

Pranav Amin: You're right. At the start of the year we have had said 700. But as you know first quarter was little bit of a washout, a little lower R&D activity due to the lockdowns and stuff like that. I think we will end up at about 630 to 650 crores or so for the year.

Rashmi Sancheti: On India business if you could help us understand that, whether there were any new launches, I mean, how many launches have we done in nine months in both specialty and the acute segment?

Shaunak Amin: In the last nine months we have launched, one product in the acute side and we've launched two new products on the speciality side. We launched Bilastine which is the antihistamine product in the acute side of business and we've launched Dapagliflozin in the cardio-diabeto space, along with Rivaroxaban also in the cardio-diabeto space.

Moderator: The next question is from the line of Anmol Ganjoo from JM Financial.

Anmol Ganjoo: A couple of questions, one is that for the new launches that we had this quarter in the US, a couple of interesting opportunities

that you referred to, so for what period during the quarter did we get the full benefit of those launches?

Pranav Amin: They were launched in December itself in the latter half of December. So we have only seen about 2- 3 weeks of sales at the most.

Anmol Ganjoo: In that case, given that we've had fairly strong growth even in India, which is a higher gross margin contributor, the sequential decline in margins, although still healthy, falls to a fairly grim pricing action sequentially. So is it fair to say that this quarter, therefore, now represents the normalized level of sartan contribution and incremental deterioration from this piece which we've been worried about for the last couple of quarters is hard to consume?

R. K. Baheti: I really do not understand because our margins have been pretty good and have been consistent, a few basis points here or there doesn't really matter but the GC continues to be at around 75%. The EBITDA continues to be at around 30% which is very good.

Anmol Ganjoo: I understand that Mr. Baheti and full complements to you for achieving that. What I'm trying to understand is that this quarter therefore given the deterioration we have seen in the sartan contribution, is it the new base going forward therefore? Because I think purely sequentially, the pricing action on the sartan side and US seems to be not in line with the last 8-9 quarters, something which we have been worried about given the sustainability. So that's what my question is.

R. K. Baheti: So hopefully in the foreseeable future, we should be able to retain our margins.

Anmol Ganjoo: And the sartan contribution, therefore this quarter is most likely the bottom, right?

Pranav Amin: Most likely is what, sorry, I didn't hear the last bit?

Anmol Ganjoo: The bottom, the trough.

Pranav Amin: I don't know. It is difficult to say how much lower it can go but I think, yes, it is what it is. So moving forward the contribution from sartans is lower than what it was in the first half of the year.

Anmol Ganjoo: So basically, Pranav, what I'm trying to understand is the vulnerability of the US sales territory to any adverse competitive environment of the like that you referred to in your comments to the sartan picture. So you have a reasonable confidence that is not the case, right?

Pranav Amin: As I mentioned earlier, if you asked me about my moving forward, going to FY23-FY24, our internal estimates stay intact, we're still confident about the US market. As regard to sartans, I also mentioned in the last eight quarters, there have been a lot of disruptions in the market. So it is stabilized quite a bit. So it's little more easier to predict now because there were lot of disruptions in the past, sort of onetime buy opportunities across the board. So that's what caused in the past. But I think moving forward it's settled for now in my opinion.

Moderator: The next question is from the line of Ranbir Singh from Sunidhi Securities.

Ranbir Singh: One question related to Aleor JV. So if you could just give a detail of what the status currently we have there. So of the current approvals in this quarter, like 6 final approvals, how much was

from Aleor? And are we making a breakeven at the bottom line at this level?

Mitanshu Shah: For Aleor, we started the commercial sales last year itself. The sales in the overall context is very miniscule. We had a couple of approvals in the current basket of approvals for the quarter from Aleor basket as well. Going ahead when we have the critical basket, we have 30-40 products approved and when we start selling that in the market, we'll kind of see how the derma portfolio performs in the overall scheme of things. Right now it's a limited number at this point of time.

Ranbir Singh: So are we making losses there and what would be the quantum of loss currently we're making on a quarterly basis?

R. K. Baheti: There is a loss at this moment but because in a line-by-line consolidation, it gets consolidated. You can get a feel of the losses based on the minority interest, which is getting disclosed in the financial results.

Ranbir Singh: And secondly, we see in presentation, you have one injectable approved. So is this a tentative approval or final approval?

Pranav Amin: I don't think we have an injectable approved as yet. It will be tentative. It won't be a commercialized.

Ranbir Singh: So this is from F3 facility, right?

Pranav Amin: It's from CMO. We have launched that, that's right.

Moderator: The next question is from the line of Abhishek Sharma from Jefferies.

Abhishek Sharma: I had a question on number license. We know that we are heading into PDUFA date for monotherapy for two indications with good data this year. What kind of milestone and royalty can be expected for Rhizen and thereby for Alembic in FY22?

R. K. Baheti: That's a difficult question. The product is already outlicensed to TGTX. So they will be doing the marketing. We are entitled to receive a high single-digit royalty on sales. So depending on the approval time and how they launch and what kind of market share they capture, the royalty will be dependent on that. Difficult for us to predict but we are pretty hopeful of a good number.

Abhishek Sharma: And sir, milestone?

R. K. Baheti: Milestone, also, once the product is launched, we would be eligible for some more milestones.

Abhishek Sharma: And nothing on approval?

R. K. Baheti: Now approval and launch will be almost simultaneous. So yes, on launch now nothing on approval.

Moderator: The next question is from the line of Gagan Thareja from Kotak.

Gagan Thareja: My first question is around your India piece. If you could give—to start with give—a ballpark idea of the contribution of sales from anti-infectives, gastro and cough and cold for Alembic?

R. K. Baheti: So our numbers are given in the table in the Investor Presentation which is part of our coverage.

Shaunak Amin: Yes. Roughly, if you look at it acute to specialty is 40-60.

Gagan Thareja: And you've launched Dapagliflozin and Rivaroxaban. These are products quite a few others would have launched as well having

on/off patent. And you are trying to push through into electronic therapies and building up there. But that's a strategy that I think a lot of your peers would also be following. Given that situation, how do you differentiate and manage to maintain the growth that we've seen in this quarter for the India piece?

Shaunak Amin: Even in Q2, we had a 16% growth in the cardio business and again in Q3 it continued and we see this trend based on numbers in the market. In regards to differentiation, the question is far more complicated and we can have a separate call if required to discuss it in detail but in there too many things we can talk about differentiation in terms of competitive peers. In terms of the new launches, we are extremely confident that we will be able to take good market share in all the new cardio, diabeto launches. Partly this is based on the fact that we've seen of now strong traction from our customers. We believe in our strategy and we did a good justice to the launch to drive it. So far what we're seeing is their set up went to take good advantage of all the new launches despite the competition in mainstream.

Gagan Thareja: The second question is around the QIP. You've been indicating that you've gone through a period of very heavy capacity building which will now trail out and therefore I would presume that you would be positioned from a very good healthy free cash flow generation which could have been used for the debt repayment and therefore I was wondering, what was the thought process for the QIP given that you would get into a strong FCF generation mode already?

R. K. Baheti: A lot of discussions had happened in October because the QIP was in August and in October results call, this issue was discussed in quite a detail. Just to briefly reiterate, we believe we

still have lot of growth opportunities particularly in the international markets and we'll continue to invest so we have just taken a small pause. We wanted these facilities to be inspected, approved, new products rolled out and we already have on our drawing board further expansion plans. We believe that QIP will de-risk the entire balance sheet and so there is an element of business risk and we didn't want to couple it with the financial risk and that's always a prudent strategy. Alembic has always been the conservative organization; we have been very-very miser on equity dilution and we very consciously did it; that actually demonstrates our confidence in the international business.

Gagan Thareja: Third question is around the US sales. If I've got it correct, you've been pointing out that on an average 20 to 25 approvals is a possible base case scenario for you in US in the coming years which would mean that your entire pending pipeline could get monetized in 3 to 4 years and the size of that pipeline at 118 pending, I would presume would be higher than the number of products you have in the market. Also, there would be better filings in terms of the quality which would mean that ideally you should be in a position to be 80% to a double of your current base by the time you monetize all of this. You've also indicated last quarter that by FY24, you could be 400 to 500 but now I think you're talking of around 400. Any reason for that?

Pranav Amin: I have always said it's very tough to say on the generic side. When I say guidance, it's not a guidance per say, I have said that companies at the similar phase that we were in, were kind of filings, and what they've done, what would be our internal target. Yes our internal target would still be 400 to 500 million, anywhere between that. That doesn't change.

Gagan Thareja: Between MEIS and the new costs that you will incur with the new plants coming in next year, what could be the sustainable EBITDA margin profile for you?

R. K. Baheti: They will go hand-in-hand and there can be a bit of time lag but otherwise they will go hand-in-hand. Once we have the new plants inspected, approved, the commercial production rolled out of that, yes, the overheads will start hitting the P&L but so will be the revenue generated out of those plants. Now I have always said that 30% on a larger sales volume is an ambitious EBITDA margin, may come down a bit. But I think in absolute terms the business will be significantly bigger at that time.

Moderator: The next question is from the line of from Anubhav Aggarwal from Credit Suisse.

Anubhav Aggarwal: Mr. Baheti one question on the India market. You mentioned that activities are fully back at pre-COVID levels. Just one question on the promotional spend as well. My understanding was that, that is the last quarter. I'm not very updated what's happened in this quarter. On the conferencing side at least with the doctors, everything was digital so far. So what's the update there? Is that still digital and that part is not yet back?

R. K. Baheti: Shaunak had been saying consistently we had moved away from those CRM and those conference sponsoring activity a long time back. Most of our promo activities are now science-centric or in-clinic support centric and we had already taken a beating sometime back due to that. But we thought that being compliant in letter and spirit is always going to be sustainable. That has not really impacted our P&L if you ask me.

Anubhav Aggarwal: Would you say that your India level margins are now very similar to what you were doing at pre-COVID? They are not at elevated levels as were for the peers as in the first 6 months of this year?

R. K. Baheti: Now they are at pre-COVID levels.

Moderator: The next question is from the line of Nitin Agarwal from DAM Capital.

Nitin Agarwal: Mr. Baheti when you're looking at the CAPEX plan for the next couple of years, should we think about our CAPEX now?

R. K. Baheti: During our QIP or post QIP interaction I had already said that there are plans to add couple of more injectable lines in F3 once we have this inspection and approvals in place. We had created infrastructure which is larger than what we have populated. Currently we have populated three lines and it can take two to three more lines. We have already initiated the concept paper for installing two more lines going ahead. In addition to that we said we are already making more investments in API. Now that the government has come out with a little liberal guidelines for granting environment and other approvals and API had been under invested in last few years. We are stepping up our investments on API. So these two areas will take some investments going forward.

Nitin Agarwal: Is there any amounts which are earmarked towards API and injectable CAPEX going forward?

R. K. Baheti: Going forward excluding the normal maintenance CAPEX should be about 400 to 500 crores in next 1.5-2 years.

Nitin Agarwal: That's 400-500 crores each, right?

R. K. Baheti: No, both together.

Nitin Agarwal: Across the injectable and the API business?

R. K. Baheti: These two new initiatives and then there are about 250-300 crores of annual maintenance CAPEX that would continue, that includes R&D also.

Nitin Agarwal: Broadly speaking about 1000 crores of CAPEX over the next 2 years, including maintenance and growth?

R. K. Baheti: Yes, you are right.

Nitin Agarwal: On the other emerging market businesses, that scaled up very nicely in these nine-months. Shaunak what is this business of, so how should we look at this business now incrementally going forward because this is now a reasonably sized business for us and about almost like 800 crores per annum, almost $100 business which is amongst the larger emerging market businesses amongst the peer group also. What is driving it?

R. K. Baheti: Nitin we are not in emerging markets of these, what we call ROW markets are all the regulated markets. The largest part of it is Europe and followed by Canada, Australia and so on. How we look at it is India market, US and ex-US ROW but all of them are regulated markets.

Nitin Agarwal: It's a likes of Canada and EU largely, those kinds of markets?

R. K. Baheti: Yes.

Moderator: The next question is from the line of Ayush Mittal from Mittal Analytics.

Ayush Mittal: In reference to your earlier update about the pending USFDA inspection for our new plants. I wanted to understand more about it. Like if the inspection is to happen in quarter or two, by when do you expect to get on to commercialization and perhaps a team optimum utilization?

Pranav Amin: There are some products which are in shortage and which are waiting, there is no patent expiry on those. Those will start get launched right away. Right after the inspection, I expect that as we get the go ahead, they will give the ANDA approval as well. In terms of capacity utilization full, that'll take a while because there are three lines and we're going to add more lines as well. That'll take a while but the plant will start contributing once we start commercializing these products.

Ayush Mittal: By optimum utilization, what I mean is that broadly good enough to cover the additional cost of depreciation, manpower and so many other things that have been pending to be expensed?

Pranav Amin: Very tough to predict.I can't really give a guidance on that. I'm sorry.

Ayush Mittal: Also given COVID, you see that this is reasonable to expect this inspection to happen in a quarter or two or there can be more delays? Are you seeing a USFDA inspect plants in these times?

Pranav Amin: So far they're not inspecting but we've been talking to them and that's why I'm hopeful that within the next two quarters, they may come and inspect because there are some products which are in shortage. But so far the USFDA hasn't been coming in and inspecting.

Ayush Mittal: You plan to keep doing more filings till then.

Pranav Amin: Absolutely yes.

Ayush Mittal: There is always one accounting issue that comes in respect to this expansion that given that this approval has been so delayed, why our people are operating there? Shouldn't the company take a more prudent approach and charge-off the operational expenses going forward? Even before we get the full go-ahead from USFDA?

R. K. Baheti: There are two aspects and both are related to accounting standard. An accounting standard says that you need to capitalize expenses till the commercial use is started but you are aware that there is an another standard which also requires company to test for impairment and we and the auditors keep testing for impairment and we still believe that the expenses which are loaded to the capitalization would still meet its financial goal so we don't need any impairment. So far, we are good.

Ayush Mittal: No, because in the ANDAs committee there is lot of concern because of this part that as the plant has been put up, people are there so there's definitely a lot of expenses and depreciation to things, machinery and everything happening just because it is out there and you are doing filings and all those things. Isn't it prudent to have some charge should be P&L?

Mitanshu Shah: Ayush, what we are doing is, we are not capitalizing every expense. All the trials that we do machine trails we do strictly which can be capitalized are the ones which are getting capitalized, the batches that we take, scale up batches, the exhibit batches, all of those things we do are all getting expenses R&D expenditure. Now coming to the administration portion of the entire plant, that is also getting expensed out. So the one which

does get capitalized is the core thing which is useful for building the capacity.

Ayush Mittal: That's really good to know Mitanshu because if you go to civil forums, I think there's lot of debate on these issues and if there's more clarity, if you can quantify on some numbers or something that we are expensing so much of expense which is towards new initiatives that will help the analyst understand the company better, just a feedback from my side.

Mitanshu Shah: Ayush again, not getting into the numbers. Conceptually we could talk about it and we can take this offline. I'll give you a greater flavor on this.

Ayush Mittal: Pranav sir you had mentioned which other analyst had also asked earlier that our ambition from the US business is to scale up to a $400-500 million. Now as we are already at $70 million stable revenue which is almost $280-300 million number. Given that we are doing such a large CAPEX towards the US, shouldn't our revenue 3-4 years down the line much higher, the aim should be much higher, if not, why?

Pranav Amin: The injectable facility that we built, that' s got ophthalmic, it's got a prefilled syringes and vials and we will keep building that as we go along, we will keep adding more products to it. So the revenue will continue growing. I'm saying by FY24, we will get to 400-500 million dollars. We won't stop there. It'll continue growing after that as well and also there's a timeline, right? Because we're filing, let's say about 10 to 12 ANDAs that we expect to file from this new facility F3. From oncology these a little more back ended in terms of approvals, because they are all under patents but most of them all P4s from the oncology facility. So that's what the

combination and is just a start, when we will of course keep ramping up from then onwards as well.

Ayush Mittal: That's what I was trying to get that as we're moving up the value chain where we are trying to do more complex things on the injectables, onco, derma, so logically the pathway should be much higher, the aim should be much higher as you go forward and we can do more of Brownfield CAPEX also if we get success?

Pranav Amin: The business has to keep growing know, at some point you have to keep adding new products and more complex ones.

Ayush Mittal: With the R&D spend that we do today is quite high when we compare to any of our peers. Going forward do you think this will continue to grow as a percentage or will this taper down as our revenues scale up from new expansion that we are going to take?

Pranav Amin: We've got asked this question in the past as well. I think what will happen is as an absolute amount it will continue growing but as a percentage, once these new facilities are commercialized, you'll start seeing it come down.

Ayush Mittal: Will that come down to 7%-8%? Is that a reasonable assumption?

Pranav Amin: I would say about a 9% to 10% at least.

Moderator: The next question is from the line of Nimish Mehta from Research Delta Advisors.

Nimish Mehta: I just wanted to know you mentioned that we have launched Asenapine. Can you let us know what is the likely competition because I guess this is a product which has settled? Is there a difference in launches between other players?

Pranav Amin: In the market I remember there is about, three other people, apart from us. There's authorized generic as well as two additional competitors in the market. It's a decent product which has got pushed back because of patent, but we've launched, we have picked up some market share. We'll get more clarity in the next couple of months, how the market settles down.

Nimish Mehta: What I understand is we have launched two dosage forms versus three. Does that to capture majority of the market or how is it?

Pranav Amin: There are two strengths of the formulation, yes that's majority of the market.

Nimish Mehta: Any color on the other opportunity that you mentioned Timolol gel which are also.

Pranav Amin: Timolol is an also interesting opportunity. There's the Innovator in the market as well as and Sandoz has a different form but we have the sole exclusivity on it and also, I believe there are supply shortages in the market. So it's looking interesting right now. Let's see next couple of months how it develops.

Nimish Mehta: Are we the only player right now because of shortages?

Pranav Amin: I'm not sure. I think the Innovator and Sandoz are supplying some quantities as well. Maybe not full quantities but they're there in the market.

Nimish Mehta: Practically we are the only candidate.

Moderator: The next question is from the line of Prakash from Axis.

Prakash Agarwal: My question is on R&D. I joined a little late but what is the R&D spend we are planning to do for fiscal '22 and '23? Any rough ballpark percentage of sales would help.

Pranav Amin: In terms of absolute amount, somebody asked earlier but I will just repeat it since you weren't there. We'll end up the year below 650 crores for R&D because the first quarter was a little slower due to COVID. As regards the next year, I expect R&D to be anywhere between 700 to 750 crores.

Prakash Agarwal: The momentum can continue given you have (200+) products in the grid and you want to file 20-25. Do you anticipate year after it would taper a bit or it would be at this level?

Pranav Amin: It will be at this level itself. Absolute amount will gradually keep increasing because we will also start doing little more specialty and more complex products but as a percentage, (once the new facilities are commercialized you will see revenue from them) will come down.

Prakash Agarwal: And second one is on the EBITDA margin, so as Mr. Baheti said that the expense side of promotions and all are back to normal, pre-COVID levels and you also mentioned that sartan has seen some competition despite that we were able to do 27%-28% kind of core margins ex- other income. So just wanted to understand how sustainable are these given both these tailwinds in spite of that factoring in you are able to do 27%-28%, are these sustainable for next year as well?

R. K. Baheti: We have not given the next year margin guidance. We have given an overall guidance. I think we should be good for that. You can do a bit of back calculation. The margins are okay and within reach.

Prakash Agarwal: Because if I do that calculation, then we are either…

R. K. Baheti: Few factors are additional cost, which will come with the new plants, come down the mid year.

Prakash Agarwal: That is a function of post inspection once you commercialize in the second half?

R. K. Baheti: Absolutely, otherwise it stays in this range.

Moderator: The next question is from the line of Yash Gupta from Angel Broking.

Yash Gupta: My first question is on API. As the Chinese player, Chinese competitions are back in the business, so how this pricing will be volatile in next couple of months?

Pranav Amin: So, as I've said, historically in the past that we don't really compete as much with the Chinese, because we supply only to the regulated markets and increasingly even pre-COVID there was a lot of action of people having alternate sources from China in terms of the intermediate and the regulatory approvals and inspections. So, having said that, yes Chinese are back in the market. Demand will slow little bit compared to low what it was, but I don't expect pricing to be hit as such.

Yash Gupta: Second question is from the sartan business, can you give some sales number for the sartan in Q2 FY-21?

Pranav Amin: We don't give product-wise the breakup of sales.

Yash: Just want to understand whether the dip of or de-growth of 1% in the US business, just because of the sartan or is there any other things are also involved in this?

Pranav Amin: Just sartans.

Moderator: The next question is from the line of Abhishek Sharma from Jefferies

Abhishek Sharma: Just from sartan, wanted some color, since you sell a basket of sartan products in the US. So is there any specific sartan which is getting impacted like, only sartan or sartans all across? And secondly, is the pressure more on the price side or the volume side?

Pranav Amin: I will explain that actually it's very interesting because, the last eight quarters what we have seen as we saw opportunities across the board in various sartans. Some were short terms, some were long-terms, some were one time buys. So, all that together, led to a lot of growth. What we're seeing right now is there was one sartan particularly we let go off the business on pricing front and we didn't want to be in that. That has caused some of the sales. Rest by and large, most of the sartans are stable on single digit price decline.

Abhishek Sharma: And the volumes are the intact on all of the sartans just that the pricing is...

Pranav Amin: Yes, absolutely.

Abhishek Sharma: If you would like to point out with sartan is it that where you had decline business?

Pranav Amin: I don't want to say, but if you see market shares, you will see which one it is.

Moderator: We will take the last the last question from the line of Ranbir Singh from Sunidhi Securities

Ranbir Singh: My question is related to Rhizen Pharma. In Rhizen Pharma we this quarter we have income which is reflected there in reserve. So, is this a part of milestone payment we are receiving? Or this is recurring type profits we are gaining?

R. K. Baheti: This is a milestone.

Ranbir Singh: And so any like, we had the total deal size 150 million, so that is, any visibility on it? Or what kind of a milestone we can get in either '21 or '22?

R. K. Baheti: I responded that earlier, the deals always consists of few things. One in the milestone, the second is the royalty which we will get on the sales and the 3rd is the manufacturing rights. So, size will consist of these three things. Going forward, milestones will be only on the product launch and then subsequently the royalty and the manufacturing rights will kick in.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. R. K. Baheti for closing comments.

R. K. Baheti: Thanks everyone for attending the call. As always, it's very interesting and pleasure talking to all of you and we will keep interacting. If any of you have any question, please drop a mail to Ajay or Mitanshu, we will be happy to respond to you and, look forward to see you again next quarter, hopefully in better situation. Thank you all. Good evening have a safe day, safe rest of the year.

Moderator: Thank you very much sir. Ladies and gentlemen, on behalf of Alembic Pharmaceuticals Limited, that concludes this

conference. We thank you all for joining us and you may now disconnect your lines.